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SUBJECT: SCENESETTER FOR U/S JEFFERY'S VISIT TO VIENNA
MARCH 27

Summary

1. (SBU) Your visit to Vienna comes as Russia presses ahead with a regional campaign to promote the South Stream pipeline as a rival to the OMV-led Nabucco project. While some analysts claim that Nabucco is now "dead," OMV remains committed to starting operations by 2012. Your meetings with OMV and Austrian Government officials provide an opportunity to reaffirm USG support for Nabucco and to encourage OMV to work with Azerbaijan and commercial operators to ensure that there is sufficient Azeri gas for the initial phase. We have received indications that OMV is, for now, not moving forward to implement its April 2007 deal with Iran to develop a South Pars gas field. However, we recommend that you reiterate USG opposition to this deal, which undercuts international efforts to resolve Iran's nuclear issue. Gazprom has acquired a 50% share in OMV's gas trading platform at Baumgarten. We should confirm that this joint venture with Gazprom does not permit the Russian company to control any of the infrastructure or existing gas storage facilities at this critical gas hub. End Summary

Nabucco Gas Pipeline Project

2. (SBU) OMV is leading the Nabucco consortium's efforts to bring Caspian gas to Europe to meet growing demand and to diversify Europe's gas supplies away from Russia. Nabucco faces obstacles: some slippage in the project's timeline; uncertainty about sufficient quantities (8 bcm) for the start-up; protracted discussions between Azerbaijan and Turkey regarding an equitable transit fee; and Russian opposition. Despite these challenges, Nabucco offers the best chance to bring large volumes of Caspian gas to Europe via a non-Russian pipeline.

3. (SBU) OMV remains concerned that there will not be enough Azeri gas for the initial phases of the TGI and Nabucco projects by 2012. The company is therefore considering other options, including limited quantities of Russian gas. We need to convince OMV that, given new, upward estimates of Azeri gas potential, Azerbaijan by itself could provide sufficient volumes for Nabucco's start-up. Medium- and long-term supply for Nabucco to expand to a planned capacity of 31 bcm by 2018 could also come from Turkmenistan, Egypt, and Iraq. Iran, with enormous untapped gas reserves, is also enticing, but OMV has told us that the international situation would have to improve before it would consider this option. OMV strongly believes that Nabucco is a much more commercially viable project than Russia's South Stream. In OMV's view, both projects could co-exist, but the initial load factors would be "lousy." OMV CEO Ruttenstorfer and

Economics Minister Bartenstein have publicly said that South Stream could be complementary to Nabucco.

OMV's Iran Deal

¶4. (SBU) In April 2007, OMV signed a Heads of Agreement with the National Iranian Oil Company to participate in the development of the South Pars 12 Gas Field. The USG has consistently and vigorously emphasized to OMV and the GoA that the deal, although only a preliminary agreement, sent the wrong message at a time when international sanctions were increasing pressure on the regime. The deal did not contravene Austrian, EU, or UN law, but worked against diplomatic efforts, including the EU-3 initiative, to force Iran to come clean on its nuclear program. If implemented, the deal could trigger U.S. sanctions against OMV under the Iran Sanctions Act. The Austrian political class continues to support OMV's Iran deal publicly, but recent information indicates the GoA, which owns 31.5% of OMV, has asked OMV to put the deal on ice for now.

Baumgarten Gas Hub

¶5. (SBU) OMV's "Baumgarten" facility encompasses two distinct operations: a natural gas shipping hub and a gas trading platform. The physical gas hub, which has been in operation since 1968, handles over 50 bcm of gas annually, predominantly from Russia. One-third of all Russian gas exports to Europe transits through Baumgarten. The trading platform, located in Vienna, is a virtual gas exchange, which offers commercial, logistical, and auctioneering services to

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traders.

¶6. (SBU) On January 25, OMV and Gazprom signed an agreement allowing the Russian company to take a 50% stake in the gas trading platform. The agreement also foresees joint storage projects in the region. Some commentators have alleged that the joint venture will allow Gazprom to take over the Baumgarten hub. However, OMV has consistently told us that the Gazprom agreement pertains only to the trading platform and that OMV would not allow Gazprom operational control over Baumgarten's infrastructure, existing gas storage facilities, or control over the sale and distribution of gas coming through Baumgarten.

Iraq Exploration

¶7. (SBU) In November 2007, OMV signed two production sharing agreements with the Kurdish Regional Government (KRG) to develop two oil blocks in northern Iraq. The Iraqi Oil Ministry subsequently decided to halt all oil exports to Austria because of its displeasure with the OMV-KRG deal absent a national Hydrocarbon Law. OMV believes its deal conforms to the Iraqi Constitution. OMV also views Iraq as a possible supplier for Nabucco in the medium-term.

Kilner